

The Ninth IMF-Japan High-Level Tax Conference for  
Asian Countries

# VAT System and Actions for VAT Refunds in JAPAN

National Tax College,  
National Tax Agency,  
JAPAN

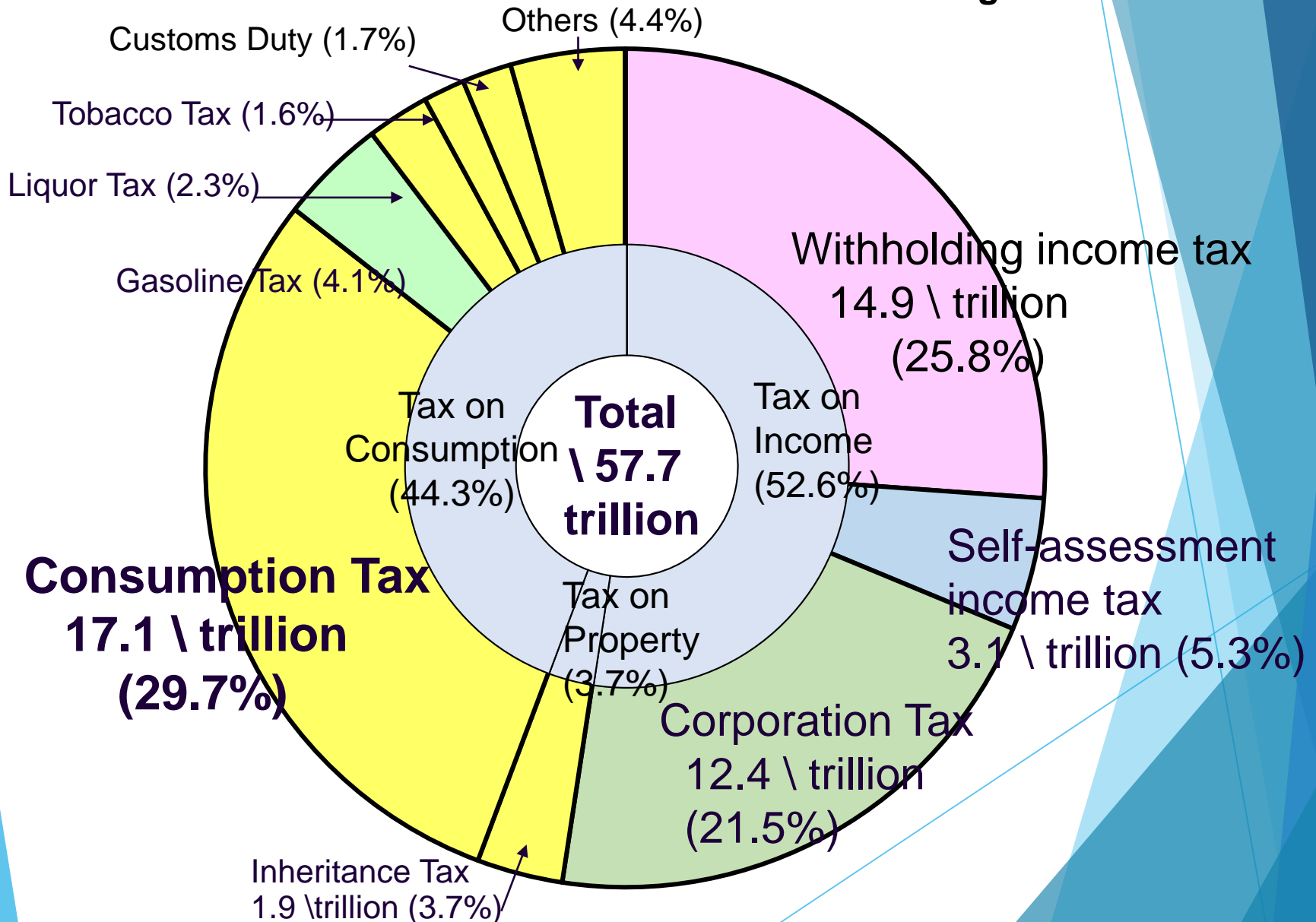
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# 1. Composition of National Tax Revenue

Budget for 2017



## 2. Transition of VAT System in JAPAN

Year	Items	Tax Rate, etc.,
1989. 4	Introduction of VAT	3 %
1997. 4	Rise of tax rate	5 %
2004. 4	Lowering the exemption threshold for business	From 30 million JPY to 10 million JPY
2014. 4	Rise of tax rate	8 %
2019.10	Rise of tax rate	10 %
2019.10	Introduction of multiple VAT rate	Standard tax rate: 10% Reduced tax rate: 8% ( * )
2023.10	Introduction of the invoice-based method	

\* The scope of reduced tax rate

“Foods and drinks excluding Liquors and Eating-out Services” and  
“Subscribed newspapers published twice or more a week”

# 3. Features of VAT System in JAPAN

## 3.1 Introduced in 1989

## 3.2 Taxable transactions

3.2.1 Transfer or lease of assets and provision of services (except for digital services), made in Japan, with consideration, as a business activity

3.2.2 Foreign goods received from bonded area

## 3.3 Tax-exempted transaction

- Export trading
- International transportation

## 3.4 Non-taxable transactions

By nature of transaction or from the perspective of social policy:

- Transfer or leases of land
- Housing rent
- Educational services defined under the School Education Act
- Medical services in the public medical care systems, etc.,

# 3. Features of VAT System in JAPAN

## 3.5 Taxable person

### 3.5.1 Businesses whose taxable sales is more than 10 million JPY during the Base Period

- \* **Base Period :**
  - The second preceding year before the current year for sole proprietors
  - The second preceding business year before the current business year for corporations

### 3.5.2 Newly established corporations whose capital or equity amount is more than 10 million JPY

### 3.5.3 Businesses whose taxable sales is more than 10 million JPY during the Specific Period

- \* **Specified Period :**
  - The first 6-month of the preceding year before the current year for sole proprietors
  - The first 6-month of the preceding business year before the current business year for corporations

# 3. Features of VAT System in JAPAN

## 3.5 Taxable person

### 3.5.4 Newly established corporations meets both of the following conditions:

- **More than 50 % of total number or total amount of issued shares or equities of the newly established corporations are owned by a business or a business and its relatives, etc.**
- **The taxable amount of a such business or the taxable amount of any of a such businesses and relatives exceeds 500 million JPY in the second preceding business year before the first business year of newly established corporations**

### 3.5.5 Businesses who choose to be a taxable person by submitting a certain notification to the relevant District Tax Office (Minimum 2 years)

### 3.5.6 Any individuals or corporations who receive foreign goods from bonded area

# 3. Features of VAT System in JAPAN

## 3.6 Method of calculation : “Account based method”

- Tax amount can be calculated based on the accounting books and records.

### **Items need to be booked**

- Name of transaction counterparts
- Date of transactions
- Outline of transactions
- Consideration of transactions (VAT-included), etc.,

- In addition to the accounting book entry, a certain record should be preserved for input-tax credit.

### **Records need to be preserved for input-tax credit**

- Bills, statement of delivery, etc., or papers issued by customs superintendents that show the particulars of taxable purchase and price  
Exceptions : Less than 30,000 JPY per transaction  
Purchase form vending machine, etc.,

- Invoice system will be introduced in 2023



# 3. Features of VAT System in JAPAN

## 3.7 Revenues of VAT are destined to maintain the social security system.

### Background :

- The percentage of people aged over 65  
6%(1965) → 25%(2013) → 40%(2060)
- While social security benefits have grown greatly in line with aging population, social insurance premiums have failed to catch up with the benefit expansion.
- VAT is contributed by all people including senior citizens and brings in stable revenues.

## 4. Number of VAT Returns

Fiscal year	Individuals (Thousand cases)		Corporations (Thousand cases)		Total (Thousand cases)		Total amount of tax (Billion JPY)	
	Payment	Refund	Payment	Refund	Payment	Refund	Payment	Refund
2011	1,199	33	1,867	110	3,066	143	9,303	2,019
2012	1,143	31	1,843	107	2,986	138	9,313	1,918
2013	1,124	33	1,834	113	2,958	145	9,382	2,054
2014	1,127	36	1,835	124	2,962	159	13,504	3,620
2015	1,128	37	1,842	131	2,970	167	15,319	3,769

# 5. Actions for cases claim for VAT refunds

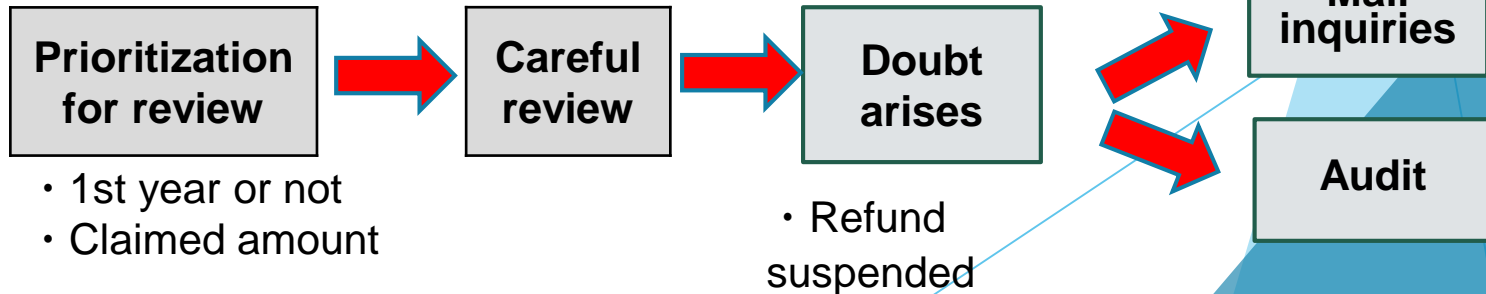
Preventing fraudulent consumption tax refunds is one of the priority matters addressed in the tax examinations.

## 5.1 Careful review on returns filed for refunds

VAT returns filed for refunds are reviewed very carefully based on the following Documents;

- VAT returns
- Individual income tax returns or corporation tax returns
- Financial statement or other documents attached to income or corporation tax returns
- Statement of return for refunds of consumption tax, etc.,

### Flow of review



# 5. Actions for cases claim for VAT refunds

## 5.2 Statement of Return for Refunds of Consumption Tax

Taxpayers file a claim for refund should attach “the statement of return for refunds of consumption tax” to the VAT return.

### **Items should be inform on the statement**

- Main reason of refund
- Top 10 biggest taxable sales
- Top 10 biggest export sales
- Top 5 biggest purchase of inventories or material costs
- Top 10 biggest purchase of fixed assets, etc.,

# 5. Actions for cases claim for VAT Refunds

## 5.3 Identifying non-filers of VAT returns

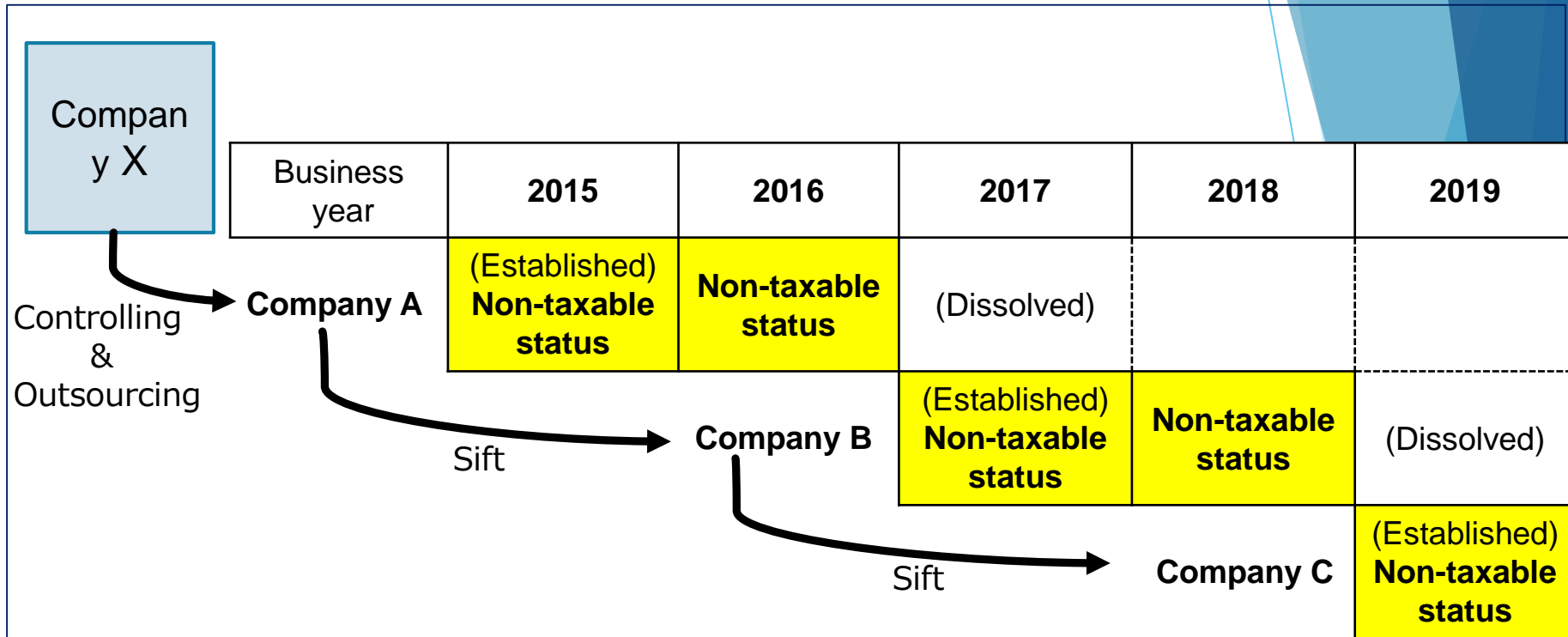
- Non-filers can be identified by checking the sales amount for individual income tax or corporation tax of the base period in our internal computer system.
- These prospective taxable persons will be inquired by letter or telephone.
- If there is no response to the letters or phone calls, such person is probably subject to field audit.
- Field audit on VAT non-filers (Individuals)

<b>Operational year</b>	<b>Number of cases</b>	<b>Additional tax revenue collected (Millions of JPY)</b>
2012	6,499	8,700
2013	6,242	8,500
2014	7,635	9,700
2015	8,119	11,900
2016	8,816	13,500

# 5. Actions for cases claim for VAT Refunds

## 5.4 Tax reform - Implementation of the provision of Taxable Person 3.5.4

### Case 1 - Before Tax Reform

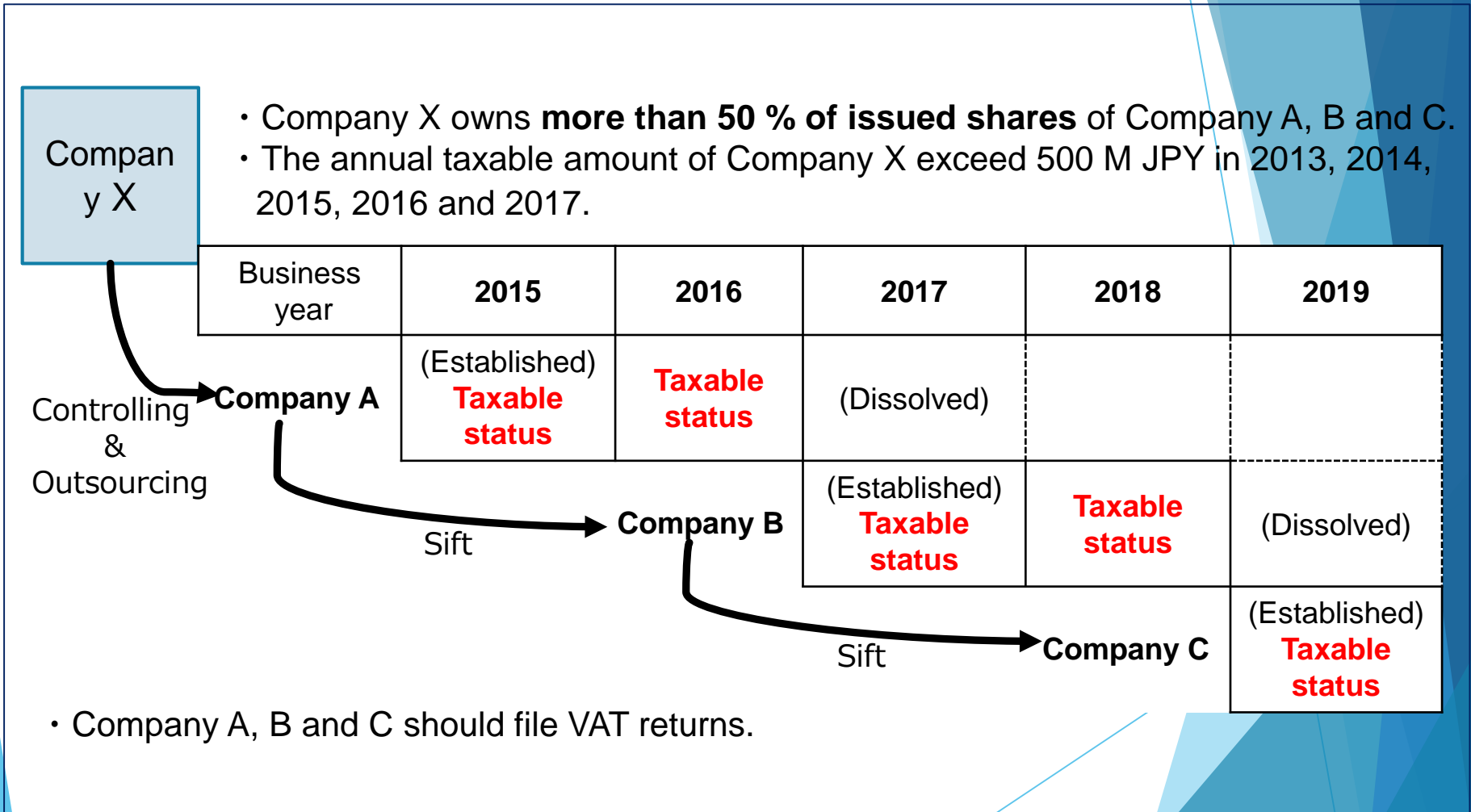


- Capital amount of Company A, B, C is 10 million JPY. (Out of the scope of Taxable Person 2)
- Company A has VAT non-taxable status in 2015 and 2016 because it doesn't have base period. Company B and C have VAT non-taxable status in 1<sup>st</sup> and 2<sup>nd</sup> business year.
- As a whole group, Company X can reduce the payment of VAT.

# 5. Actions for cases claim for VAT Refunds

## 5.4 Tax reform - Implementation of the provision of Taxable Person 4

### Case 1 - After Tax Reform



# 5. Actions for cases claim for VAT Refunds

## 5.4 Tax reform

### case 2 - Before Tax Reform

#### Year 1



- Establish a corporation for renting residential apartment
- Chose a taxable status
- Purchase a resident apartment at **108 M JPY** and renting will start next year (Input-tax is 8 M JPY)
- Place a vending machine in the building and an annual sales is **216,000 JPY** (VAT Taxable)
- Deductible amount of input tax is calculated based on the proportion of taxable sales to total sales.
- The proportion of taxable sales =  
$$\frac{\text{Amount of annual taxable sales (200,000 JPY)}}{\text{Amount of annual sales (200,000 JPY)}} = 100\%$$
- Claim for refund of huge input tax of resident apartment (About 7.98 M JPY)

#### Year 2

- Renting starts and annual rent is 30 M JPY (Rent is VAT non-taxable).
- Annual vending machine sales is 1.08 M JPY (VAT taxable).
- Annual VAT amount is quite small.

#### Year 3

- **Quit a taxable status**



# 5. Actions for cases claim for VAT Refunds

## 5.4 Tax reform

- If a taxpayer chose a taxable status and purchases certain fixed assets during 2 years from the first day of having taxable status, such taxpayer must continue to be a taxpayer for 3 years from the beginning of the taxable period in which the fixed assets are purchased.
- When the percentage of taxable sales decrease 50 % or less in the third year from the beginning of the taxable period in which such fixed assets are purchased, certain amount of refunded input VAT on such fixed assets is paid back to government.

### case 2 – After Tax Reform

	Year 1	Year 2	Year3
	<ul style="list-style-type: none"> <li>• Chose a taxable status</li> <li>• Purchase an apartment</li> </ul>	<ul style="list-style-type: none"> <li>• Renting starts</li> </ul>	<ul style="list-style-type: none"> <li>• Quite a taxable status</li> </ul>
Annual vending machine sales (VAT included)	216,000	1,080,000	1,080,000
Annual rent (VAT non-taxable)	0	20,000,000	20,000,000
Proportion of taxable sales	100 %	4.76 %	4.76 %
Before Tax Reform	<ul style="list-style-type: none"> <li>• Receive huge input tax refund</li> </ul>	<ul style="list-style-type: none"> <li>• Pay small amount of VAT</li> </ul>	<ul style="list-style-type: none"> <li>• VAT non-taxable status</li> </ul>
After Tax Reform	<ul style="list-style-type: none"> <li>• Receive huge input tax refund</li> </ul>	<ul style="list-style-type: none"> <li>• Pay small amount of VAT</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Certain amount of refunded input VAT should be back to government</b></li> </ul>

# 5. Actions for cases claim for VAT Refunds

## 5.5 Audit

- In principal, audits are conducted simultaneously with individual income tax or corporation tax, withholding tax and VAT.
- Individual income tax or corporation tax and VAT are calculated based on the same accounting books.
- The credibility and accuracy of VAT output tax and input tax are verified by checking the accounting books and other evidences on which individual income tax or corporation tax is based.
- At the same time, checks are made on items specific to VAT, such as whether VAT taxable and exempt transactions have been distinguished correctly.

# 5. Actions for cases claim for VAT Refunds

## 5.5 Audit

### ➤ Audit result

Field audit on cases which *claim for VAT refund (Corporations)*

Operational year	Number of cases	Number of cases of errors		Additional tax revenue collected (Millions of JPY)	
			Fraud cases		Fraud cases
2012	6,381	3,377	542	16,533	1,318
2013	6,697	3,523	582	7,221	721
2014	7,442	4,082	726	7,709	1,128
2015	7,475	4,215	764	15,215	3,004
2016	6,867	3,954	802	29,615	12,799

# 5. Actions for cases claim for VAT Refunds

## 5.5 Audit

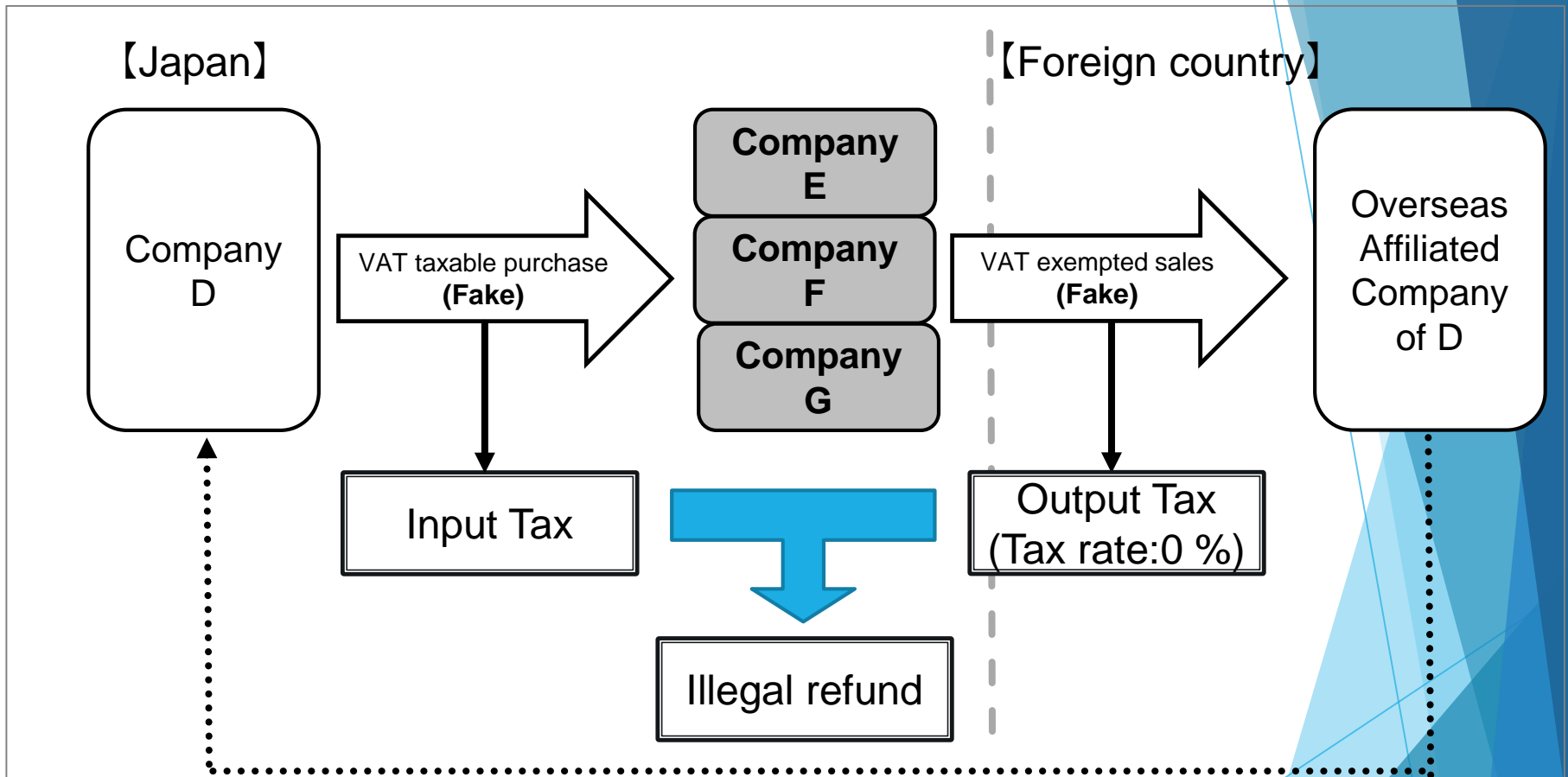
### ➤ Audit result

VAT cases filed accusation to the prosecutor under criminal investigation

Fiscal year	Number of cases accused		Evaded VAT amount (Millions of JPY)	
		Cases claim for refund		Cases claim for refund
2012	12	5	1,479	740
2013	16	8	911	298
2014	13	5	1,130	458
2015	12	6	1,049	699
2016	23	11	3,379	2,733

# 5. Actions for cases claim for VAT Refunds

## 5.5 Audit (Case 3 : Illegal refund using the export exemption system for VAT)

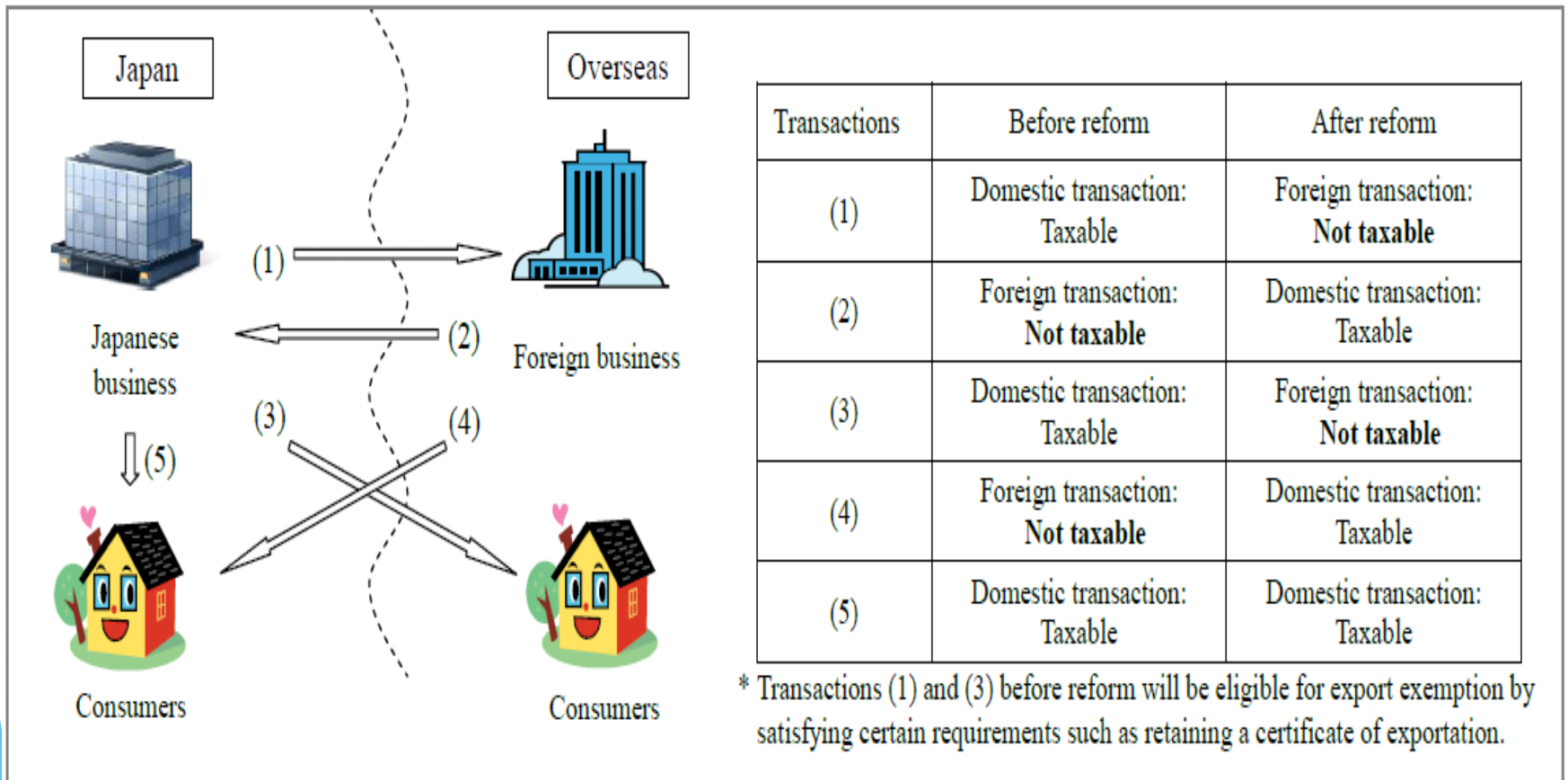


- Company E, F and G run the business of exporting luxury watches.
- They pretended to purchase watches from an affiliated company D and to sell them to a overseas affiliated company.
- These companies recorded fictitious purchase and sales repeatedly and received a large refund on VAT.

# 6. Provision for Digital Services

## 6.1 Revision of a criterion(After 2015 tax reform)

Service categories	Classification
Services provided via electronic and telecommunication networks	Address or domicile for individuals and location of a head office or a principal office for corporations



# 6. Provision for Digital Services

## 6.2 Reverse Charge (After 2015 tax reform)

### 6.2.1 B2B

- If a business in Japan receives services from outside of Japan, the Japanese business recipient has the obligation to file and pay tax under a “reverse charge” system

### 6.2.2 B2C

- If a consumer in Japan receives services from outside of Japan, instead, the foreign service provider has the obligation to file and pay tax

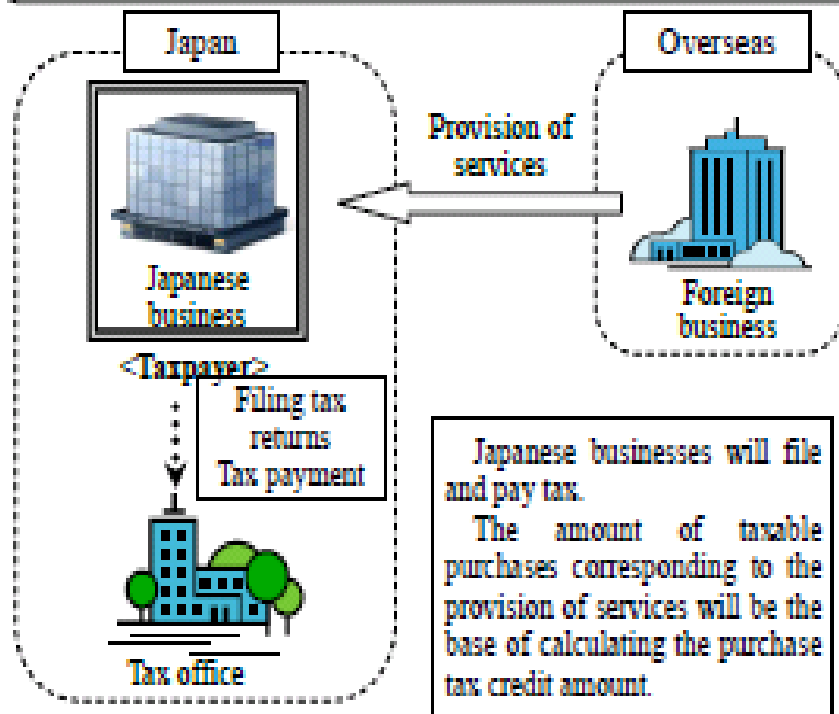
# 6. Provision for Digital Services

## Taxation scheme for the provision of B2B electronic services (Reverse charge mechanism)

Regarding the “provision of B2B electronic services” conducted by a foreign business, a Japanese business receiving the services provided is liable to file and pay tax in this scheme.

(An example of transactions: advertising services).

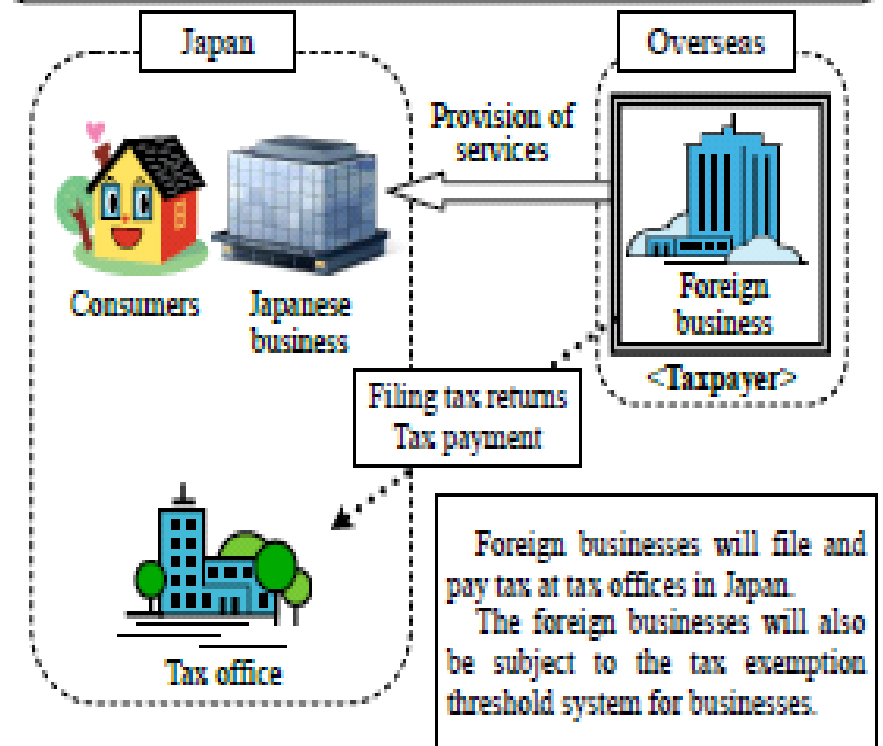
- \* Provision of services that normally are limited to businesses, considering the nature of the services, or the terms and conditions relating to the provision of the services are classified as the “provision of B2B electronic services.”



## Taxation scheme for the provision of B2C electronic services (The scheme in which foreign businesses file and pay tax)

Among “provision of electronic services” conducted by a foreign business any transactions other than the “provision of B2B electronic services” obligate foreign businesses to file and pay tax in this scheme.

(An example of transactions: provision of e-books and music)





# Our actions for VAT refund

- Careful review on returns
- Using statement of return for refund of consumption tax
- Identifying non-filers of VAT returns
- Tax reform
- Audit

*Thank you very much*